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Date Impossible to Determine

ECONOMIC INTELLIGENCE WEEKLY

2 April 1975

Overview

Expansionary Policies Are Gaining Ascendancy in the major foreign developed countries. Ottawa, Tokyo, and Paris last month adopted mildly stimulative fiscal measures resembling Bonn's moves in December. These four along with Rome and London have eased monetary policy during the past few months. These measures aim at a revival of private investment. None will provide as much immediate economic stimulus as the US tax package.

Falling wholesale prices have made the governments more receptive to anti-recession measures. In recent months, seasonally adjusted wholesale prices have turned down in all the countries except Britain. The declines reflect lower prices of many agricultural and industrial commodities as well as price cutting by firms attempting to liquidate stocks and maintain market shares.

Reaction to the US Tax Cut from the Big Six will be favorable. Prompt action by the United States makes it easier for the other governments to handle their economic problems without precipitate expansionary measures. At the same time, some EC members feel that US leadership may prod the West Germans into adopting a more robust program of economic stimulation.

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25X1A Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

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[redacted]

EC Differences with the United States over MTN Negotiating Procedures for agricultural trade may come to a head at the 15 April session. At last week's meeting, the EC pushed its position that all agricultural questions must be handled exclusively in the Agricultural Group and called for immediate establishment of various commodity subgroups. Many participants believe that substantive progress is impossible until this issue is resolved.

The Soviets Are Not Expected To Take any Initiatives To Spur US-Soviet Economic Relations at next week's US-USSR Joint Commercial Meeting in Moscow, according to the embassy. Aside from this "ball is in your court" posture, the Kremlin could reject US efforts to boost sales pending the receipt of MFN status and the liberalization of US credit. Moscow believes its position has been strengthened by: (1) the inability of the United States to deliver on terms of the 1972 Trade Agreement; (2) the US recession, making Soviet orders more important; and (3) increased competition from subsidized credits recently offered by Japan and Western Europe. (Confidential No Foreign Dissem)

Articles

DEVELOPED COUNTRIES: TILTING TOWARD REFLATION

Reflation is gradually gaining ascendancy in the policies of the six major foreign developed countries – Canada, France, Italy, Japan, the United Kingdom, and West Germany. Ottawa, Tokyo, and Paris adopted mildly expansionary fiscal measures last month; Bonn took similar action in December. All six countries have eased monetary policy during the past few months. These measures probably will provide less immediate economic stimulus than the recently enacted US tax cut.

Thrust of Recent Moves

In contrast with the consumer orientation of the US tax package, the fiscal measures announced in other major developed countries over the last few weeks are aimed mainly at stimulating investment. Aside from increases in unemployment benefits in a few countries, [redacted] scheduled before the recession – is the only program designed to expand consumer spending.

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By concentrating on investment, most governments hope to increase their export capacity to pay for higher oil import bills. Fostering a pickup in consumer spending might turn the economy around faster than the present course, but at the risk of wider trade deficits over the long run. For this reason, further loosening in policy over the course of the year also is likely to be aimed at investment.

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[redacted] and France is budgeting additional funds for housing subsidies. In Italy, upward revision of estimated tax receipts in 1975 has induced the government to make additional funds available for public construction and for subsidy of export and agricultural credit.

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Monetary policy has eased a little more than fiscal policy. All the countries [redacted] have cut their central bank discount rates this year, and most of them have relaxed credit restrictions. Weak demand for loans and the drop in central bank rates have brought down interest rates in most of the countries by a few percentage points since late 1974.

Impact of the Moves

Even though business confidence has received a boost, recent stimulative measures probably will contribute little to economic growth in 1975. Most industries are operating well below capacity and foresee mediocre sales. Investment thus promises to remain depressed in spite of tax incentives and easier credit. Increases in government investment and efforts to buoy consumer spending are not sufficiently large in themselves to turn the economies around. The impact of the reflationary moves will be to stem further declines in output and to strengthen the economic revival expected toward the end of the year.

Steps in Individual Countries

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[redacted]

France two weeks ago rushed out several measures designed to spur private investment. Paris will make $700 million in government-backed credits available to export industries and will use $200 million to increase housing starts. In addition, the government will ease credit terms for other industrial investors while keeping basically intact the borrowing limits imposed in 1973.

Italy is working within the limits of an EC loan agreement to hold down the budget deficit. Rome, counting on higher postal rates and revised revenue estimates, is financing (a) increased public investment, (b) more subsidized credit for the private sector, and (c) higher income supplements for workers. The Moro government also has loosened credit restrictions to help financially strapped firms.

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[redacted]

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[redacted]

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FOREIGN STEEL HEADS FOR US MARKET

Foreign penetration of the US steel market has reached near-record proportions at a time when US steel demand and production are falling. To minimize cuts in domestic output, Japanese and European steelmakers have recently tried to bolster their position in the United States by trimming export prices.

Steel Deliveries Up

Foreign steel deliveries to the US market increased sharply during the second half of 1974 because US demand – especially for pipe, sheet, and structural steel products – held up surprisingly well. In the third quarter, deliveries ran at an annual rate of 15 million tons, almost matching the 1971 peak. In the fourth quarter, deliveries reached a record rate of nearly 21 million tons, equal to one-sixth of US consumption.

Steel shipments to the US market, although down from preceding months, remained high in early 1975. As the momentum from earlier orders began to wane, Japanese and European steelmakers slashed their export prices, which had been well above US prices. The cuts began in late 1974, when Japanese and European export quotations for steel mill products averaged $100 per ton, or 35%, more than US domestic prices. Japanese list prices for wire rods, beams, and plates, for example, have dropped by 40% since October. In addition, Japanese and European exporters have begun to offer discounts from listed prices of 10% to 30%.

Effect on Foreign Steel Industries

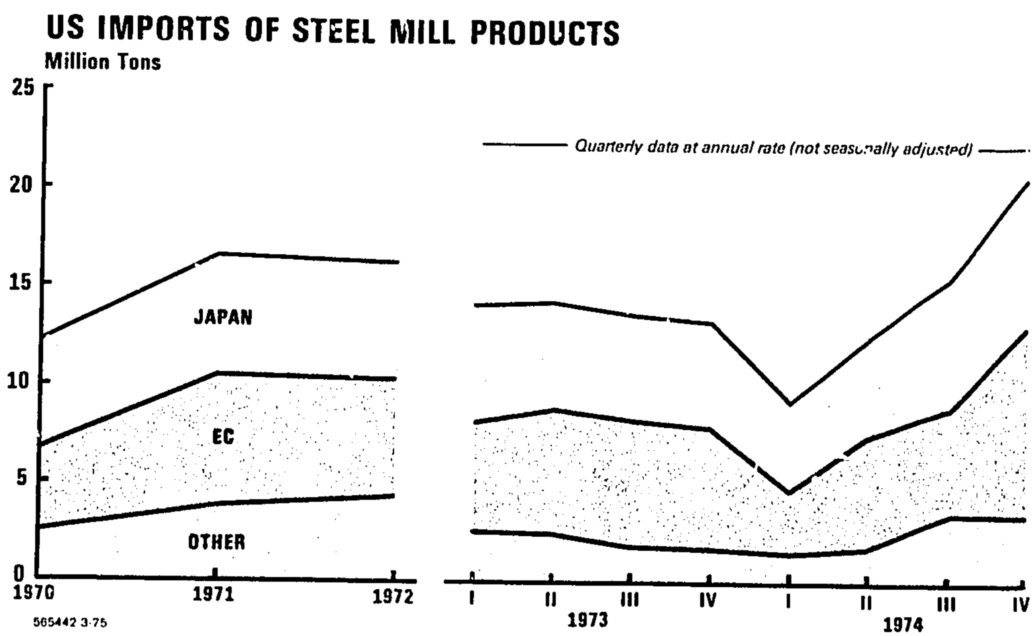
The recent jump in exports to the United States has helped sustain steel output in Japan and Western Europe. [redacted] 25X6

Average Price of Steel Mill Products in Selected Countries

US $ per Ton

	United States[1] (Domestic List Price)	Japan[1]	European Community[2]
		Export List Price, f.o.b.	
1974			
Jan	215	290	N.A.
Apr	220	315	265
Jul	265	355	N.A.
Oct	273	380	370
Dec	280	350	330
1975			
Jan	284	310-320	300-320
Feb	284	280-290	280-300

1. End-of-month data.
2. Monthly average.



25X6 [redacted] EC deliveries reached 8% of production, also up from 5% a year earlier. Without the rise in deliveries to the United States, EC steel output in the last quarter would have

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25X6 declined 3% from a year earlier, instead of increasing slightly, [redacted] US production is running about 13% below the year-ago level.

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With demand slipping at home and non-US markets shrinking, [redacted] EC producers will continue to probe the US market for sales opportunities. Japanese steel consumption has fallen by 20% since early 1974, and EC consumption apparently has declined almost as much. Important buyers such as South Korea and Brazil have begun cutting back steel imports because of large inventories, balance-of-payments problems, and slack growth.

The recent price cuts will substantially reduce profits on foreign steel sales to the United States. In most countries, production costs still are increasing rapidly; rising wages are more than offsetting a drop in costs of raw materials, particularly steel scrap. Because of more moderate cost increases and the depreciation of the dollar since 1971, US steel production costs are now generally below the costs of other major producers. This shift in relative costs means that foreign steel producers can no longer make large periodic forays in the US market at high profit margins. In the present situation they have little room to make further concessions on prices, and therefore they will be unlikely to penetrate the US market further. (For Official Use Only)■

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CHINA: PAYMENTS BALANCE IN RED

A record trade deficit of $1.3 billion pushed China's balance of payments with non-Communist countries into the red in 1974. Large holdings of foreign reserves and an excellent credit rating enabled Peking to handle the deficit with relative ease. The elements in the changed balance-of-payments position were:

- The value of imports from non-Communist countries increased by 45% while exports rose by only 20%, generating a merchandise trade deficit of almost $900 million.

- With the major developed countries, the PRC incurred a trade deficit of $2.2 billion, including a $705 million deficit with the United States and a $685 million deficit with Japan.

- Net outlays for transportation services exceeded $400 million.

- China expended $200 million on downpayments and payments for services under its program for importing complete plants and $70 million for aid to the less developed countries.

The factors in 1974 that enabled Peking to finance these heavy outlays included (a) $1.6 billion in net earnings in Hong Kong through trade, overseas remittances, and borrowing from PRC-controlled banks, (b) net credits of $400 million, (c) perhaps $500 million in time deposits from Western banks and other financing, and (d) a $350 million drawdown of gold reserves.

The crunch came in the second half of 1974 as the bulk of the repayments for short-term credits fell due and as the deepening world recession cut demand for exports. To limit the drawdown of foreign reserves, the Chinese canceled

China: Balance of Payments with the Non-Communist Countries

Million US $

Item	1972	1973	1974
Current account (net)	**310**	**-95**	**-1,260**
Exports (f.o.b)	2,345	3,900	4,675
Imports (f.o.b.)	-2,095	-3,825	-5,545
Net transportation	-130	-245	-440
Remittances from overseas Chinese	190	225	250
Downpayments and payments for services under whole plant import program	....	-150	-200
Capital account (net)	**25**	**360**	**970**
Foreign aid[1]	-100	-70	-70
Supplier credits to China (net of repayments including interest)			
For grain	65	305	180
For whole plants	....	....	220
Borrowing from PRC controlled banks, Hong Kong	75	100	125
Time deposits from Western banks, clearing account balance with Japan	100	150	500
Errors and omissions	-115	-125	15
Monetary gold (net change)[2]	**-75**	**-235**	**350**
Foreign currency holdings (net change)[3]	**-260**	**-30**	**-60**

1. Deliveries by China in the form of commodities and foreign currency.
2. International purchases (-) and sales (+) of gold.
3. Increases in holdings (-) net of drawings (+).

contracts for grain and cotton, obtained short-term credits for purchases of Japanese steel and fertilizer, and raised interest rates in their Hong Kong banks to attract deposits.

The balance of payments should improve sharply in 1975. Imports have been trimmed, and increased exports of oil will at the minimum offset the decline in other exports. Repayments on grain credits will be less than in 1974. Even though an increased amount of equipment for complete plants will be imported under medium-term credits, repayment of these particular credits will not begin until 1976. The expected slowdown in new contracts for plants will also reduce outlays for downpayments. (Secret No Foreign Dissem) ■

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NORTH KOREA: SERIOUS PAYMENT PROBLEMS

Since late 1974, P'yongyang has experienced a series of difficulties in financing its non-Communist trade. North Korea is now in arrears on a large number of letters of credit issued to Japanese and West European banks.

- At the beginning of 1975, North Korea was in default on $40 million in outstanding loans from French banks.

- North Korea remains delinquent in its payments for a Finnish pulp plant delivered in 1974 despite a recent visit by a company delegation to P'yongyang.

- Several West European banks have restricted lending to North Korea as a poor credit risk.

Since early 1970 the North Koreans have signed contracts with firms in Japan and Western Europe for nearly $600 million worth of industrial plants and related equipment, most of which are to be financed by medium-term credits. Whereas trade with the West was roughly in balance in 1970-71, purchases of capital goods and grain on credit have subsequently led North Korea to run a growing trade deficit:

	Million US $
1972	75
1973	170
1974	400

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In part, the current arrears in payments stem from improvident buying of so much equipment and grain. P'yongyang overestimated its ability to expand earnings from exports, which did well until the Western industrial boom turned sour and prices for principal export commodities fell. In addition, the problems reflect poor planning and management on the part of the North Koreans; their inexperience in Western trade and finance has been compounded by the inflation in prices of Western imports, freight services, and credit.

P'yongyang has shown little open concern about these payment defaults, taking its time in responding to inquiries from Western bankers. It generally has adopted a business-as-usual attitude in requesting new loans, seeking bids for additional whole plants, and even attempting to purchase long-range transport aircraft. North Korea, however, will find it difficult to expand purchases until its present credit difficulties are cleared up. (Secret No Foreign Dissem)■

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SWISS LOOK TO JOINT CURRENCY FLOAT

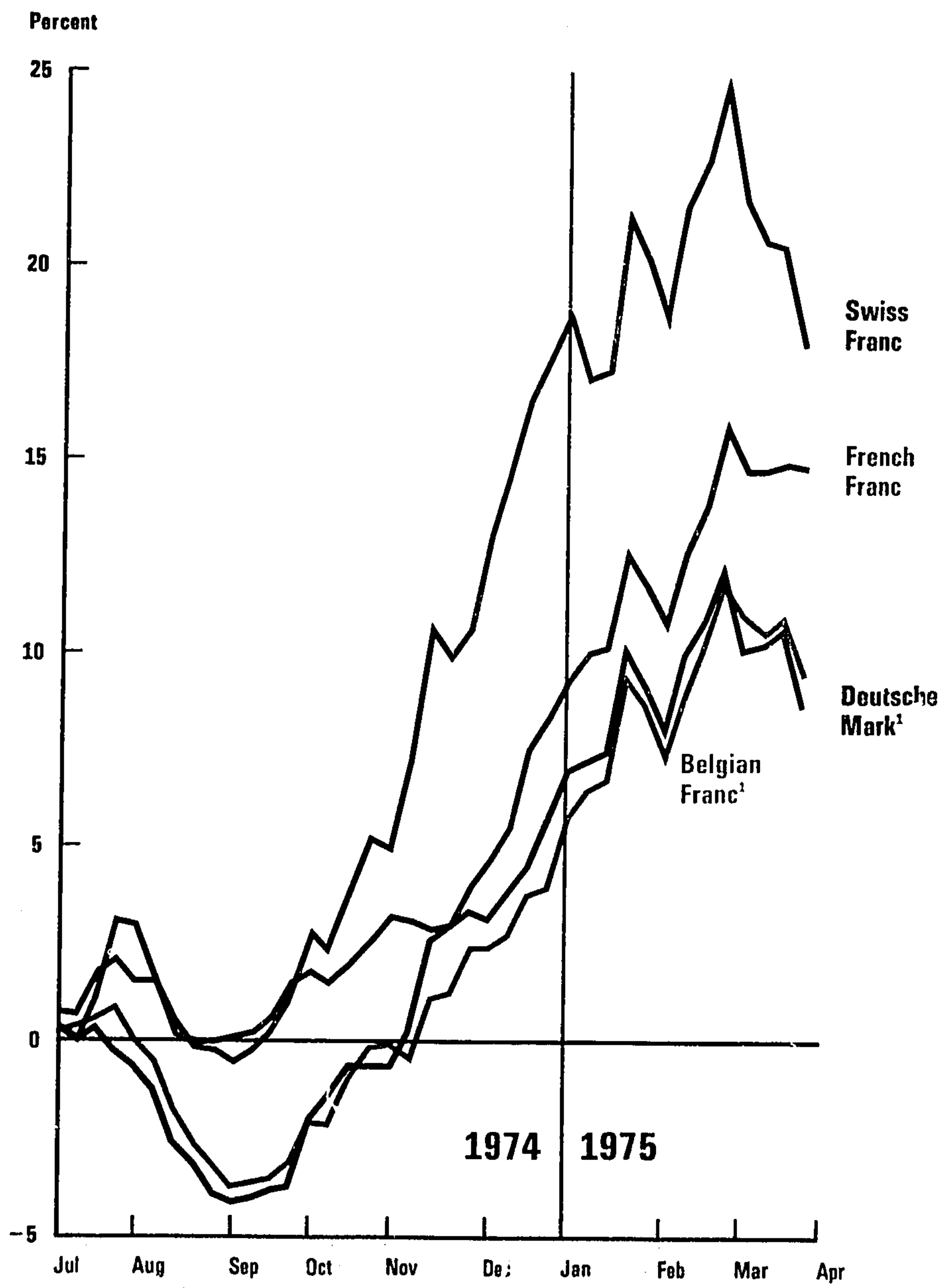
Negotiations now under way may lead to Swiss entry into the seven-nation European joint float.

Bern is interested in membership to protect exports and tourism from sharp fluctuations in the value of the Swiss franc. Attempts to curb appreciation of the franc have failed so far despite the imposition of capital controls, including a 40% negative interest rate on new foreign deposits. The franc has appreciated 18% relative to the dollar and 8% relative to the West German mark over the last nine months.

Because of the recession and the appreciation of the franc, Bern is under considerable domestic pressure to take more aggressive action to protect the value of its currency. Under an agreement reached this year with the United States and West Germany, the Swiss began more active intervention to prevent wide day-to-day exchange rate movements. An association with the joint float would commit the Swiss to defend their exchange rates with other members.

Bern's problem arises from the tendency of international investors to view the Swiss franc as an alternative to the dollar during periods of dollar depreciation. Since the market for francs for normal commercial transactions is small, the

Change in Value of Selected European Currencies Relative to the Dollar since June 1974



[1] Member of European Joint Float.

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currency's value has recently been dominated by capital flows. By entering the joint float, Bern would be enlisting the support of other members in defending the franc against speculation. Under the joint float arrangement, a member intervenes when its currency exceeds the prescribed 2.25% limits of fluctuation against other member currencies.

Several obstacles to Swiss membership remain to be ironed out. Joint float members with weaker currencies, such as Denmark, are concerned that the entry of Switzerland will cause upward pressure on the currency band and will make it more difficult for them to maintain parity within the band. EC countries that have left the float, such as Italy, fear that such developments would further put off the day of their reentry into the currency bloc. The decision to enter could also pose difficulties for the Swiss. If they join the float at current exchange rates, they would be better able to resist further appreciation but would lock themselves in at a rate disadvantageous for their export industries.

The recent strength of the dollar on European exchange markets could convince the Swiss authorities to bide their time until entry into the float is possible at a lower rate. Sooner or later, Switzerland probably will join the float to protect its export and tourist industries from large rate fluctuations. (Confidential No Foreign Dissem) ■

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Publications of Interest*

Eastern Europe: Economic Assessment, 1974-75
(ER IM 75-5, March 1975, Confidential)

The East European economies advanced at a vigorous pace in 1974 in spite of higher prices charged by Western suppliers and weakening demand by Western customers. Above-average growth was made possible by stable CEMA trade prices and a record trade deficit with the West. The unexpected jump in Soviet prices for oil and other raw materials this year, along with the continued high cost of Western materials, portends a slowdown in growth over the next several years.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

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[redacted]

Sub-Saharan Africa: Prospects for Recovery from Drought (ER RP 75-11, March 1975, Confidential)

Drought during 1968-73 caused losses of livestock and crops throughout the Sahel, which spans Senegal, Mauritania, Mali, Upper Volta, Niger, and Chad. The consequent hardship and loss of life (a) induced emergency foreign aid and (b) increased interest in developing agriculture to forestall future disasters. This publication examines weaknesses that exacerbated the situation and details problems that hamper major improvement.

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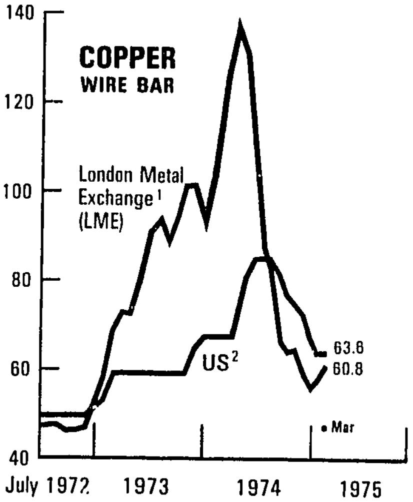
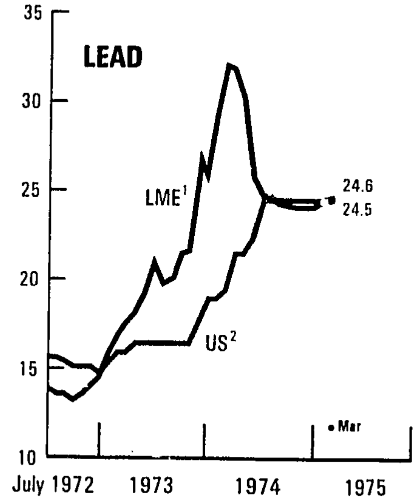
INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



¢ Per Pound

	LME	US
27 Mar	60.8	63.6
24 Mar	62.3	63.6
Feb 75	57.3	63.6
Mar 74	124.4	68.0



¢ Per Pound

	LME	US
27 Mar	24.6	24.5
24 Mar	24.3	24.5
Feb 75	24.5	24.5
Mar 74	32.1	19.5

SELECTED M

Aluminum Major

Steel Composite, $/

Iron Ore Non-Bess

Chrome Ore Russ

Chrome Ore S. Af

Ferrochrome US

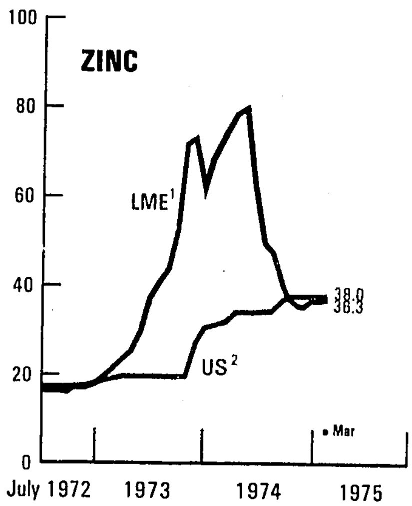
Nickel Major US P

Manganese Ore

Tungsten Ore 55

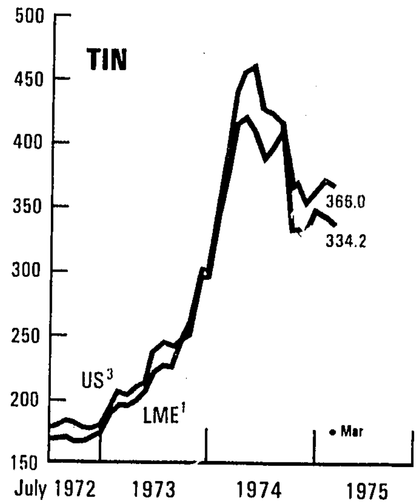
Mercury NY, $/76

Silver LME cash, ¢/



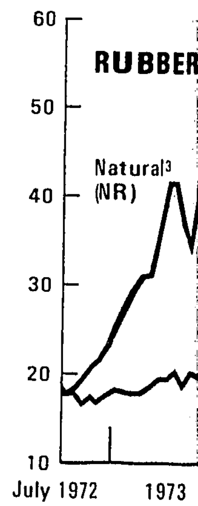
¢ Per Pound

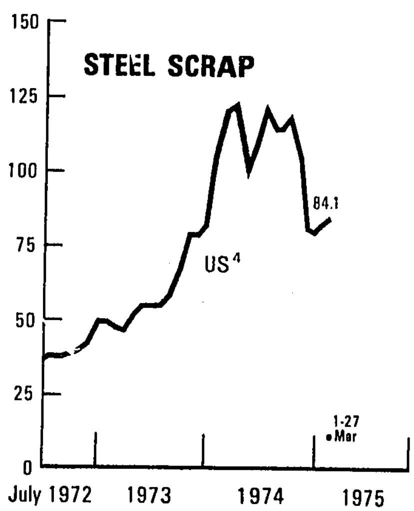
	LME	US
27 Mar	36.3	38.0
24 Mar	36.4	38.0
Feb 75	35.9	38.0
Mar 74	73.8	32.6



¢ Per Pound

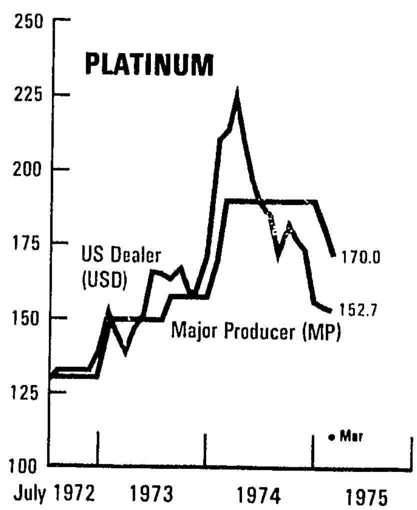
	LME	US
27 Mar	334.2	363.5
24 Mar	333.2	364.0
Feb 75	340.8	372.1
Mar 74	374.6	389.4





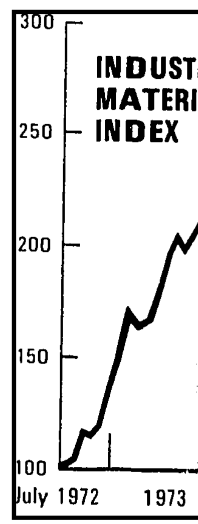
$ Per Long Ton

	US
27 Mar	83.17
24 Mar	84.17
Feb 75	81.60
Mar 74	120.84



$ Per Troy Ounce

	MP	USD
27 Mar	170.0	152.0
24 Mar	170.0	151.0
Feb 75	179.0	152.3
Mar 74	190.0	215.1

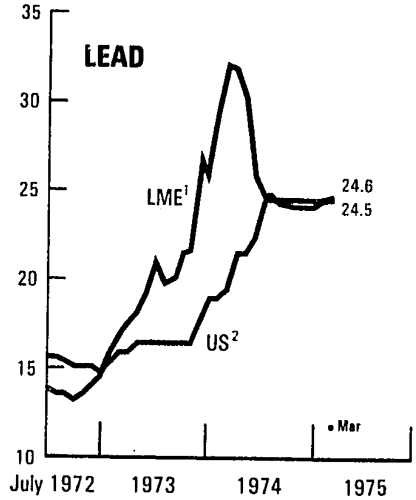


[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.
[5] S-type styrene, US f.o.b. export price.

PRICES Monthly Average Cash Price

¢ Per Pound

	LME	US
27 Mar	60.8	63.6
24 Mar	62.3	63.6
Feb 75	57.3	63.6
Mar 74	124.4	68.0



¢ Per Pound

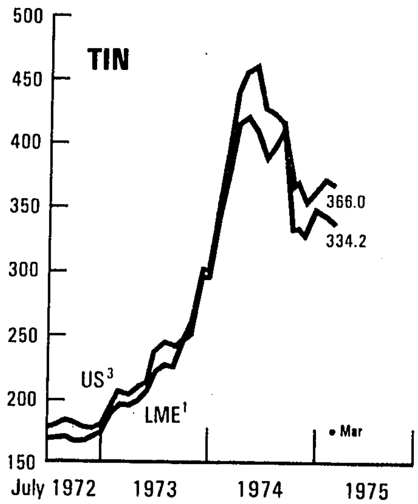
	LME	US
27 Mar	24.6	24.5
24 Mar	24.3	24.5
Feb 75	24.5	24.5
Mar 74	32.1	19.5

SELECTED MATERIALS

	Current	Nov 74	Jan 74	Jan 73
Aluminum Major US Prod., ¢/Lb	39.00	39.00	29.00	25.00
Steel Composite, $/LT	289.63	278.43	212.13	209.66
Iron Ore Non-Bessemer Old Range, $/LT	17.53	16.00	12.16	11.96
Chrome Ore Russian, $/MT	135.00	55.50	38.00	45.75
Chrome Ore S. Africa, $/LT	57.50	49.50	33.50	25.50
Ferrochrome US Charge, ¢/Lb	53.50	42.00	22.50	20.00
Nickel Major US Prod. Cathode, $/Lb	2.01	1.85	1.62	1.53
Manganese Ore 48% Mn., $/LT	67.20	54.72	52.80	31.40
Tungsten Ore 65% WO_3, $/ST	5,724.74	6,021.34	2,872.40	2,241.20
Mercury NY, $/76Lb Flask	185.00	254.94	275.54	282.50
Silver LME cash, ¢/Troy Oz	429.06	467.01	360.29	200.15

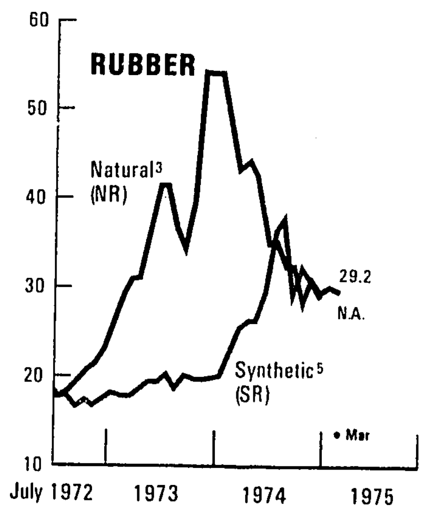
¢ Per Pound

	LME	US
27 Mar	36.3	38.0
24 Mar	36.4	38.0
Feb 75	35.9	38.0
Mar 74	73.8	32.6



¢ Per Pound

	LME	US
27 Mar	334.2	363.5
24 Mar	333.2	364.0
Feb 75	340.8	372.1
Mar 74	374.6	389.4

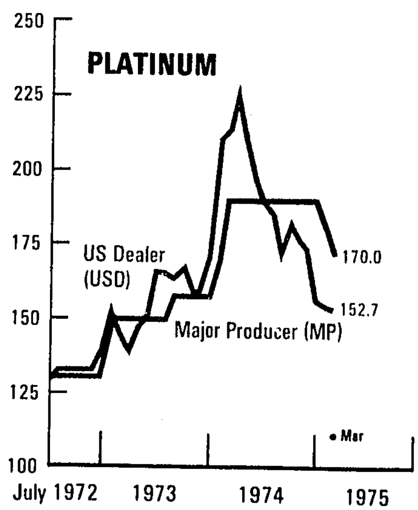


¢ Per Pound

	NR	SR
31 Mar	29.2	N.A.
24 Mar	29.0	N.A.
Feb 75	29.9	29.8
Mar 74	48.8	23.1

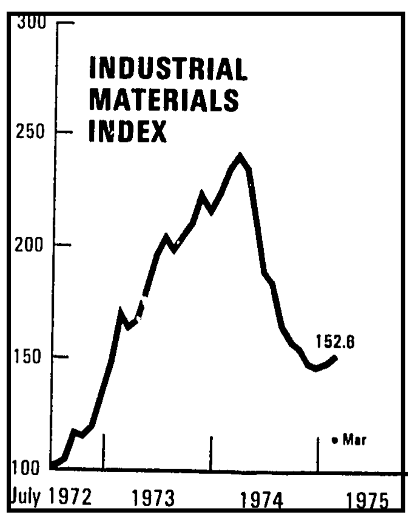
$ Per Long Ton

	US
27 Mar	83.17
24 Mar	84.17
Feb 75	81.60
Mar 74	120.84



$ Per Troy Ounce

	MP	USD
27 Mar	170.0	152.0
24 Mar	170.0	151.0
Feb 75	179.0	152.3
Mar 74	190.0	215.1



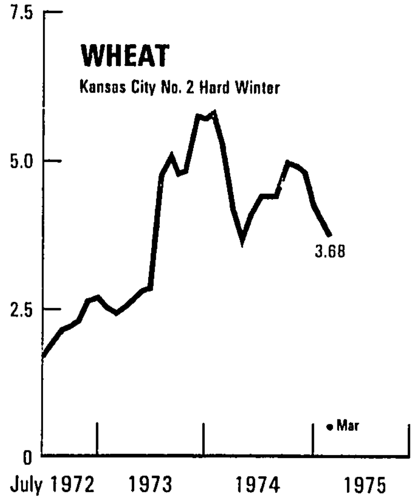
1970=100

CPYRGHT

This is a compiled index by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

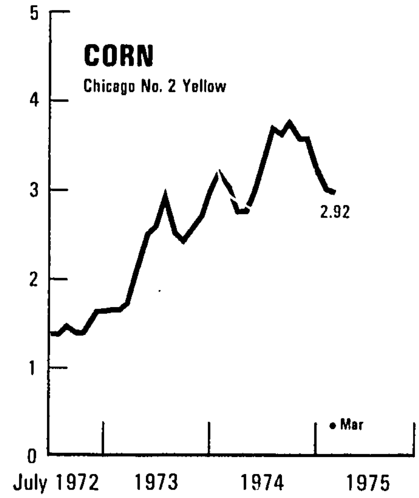
producers and traders.
d on the LME.
States.
hiladelphia, and Pittsburgh.

AGRICULTURAL PRICES Monthly Average Cash Price



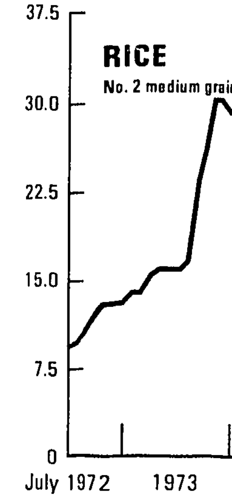
$ Per Bushel

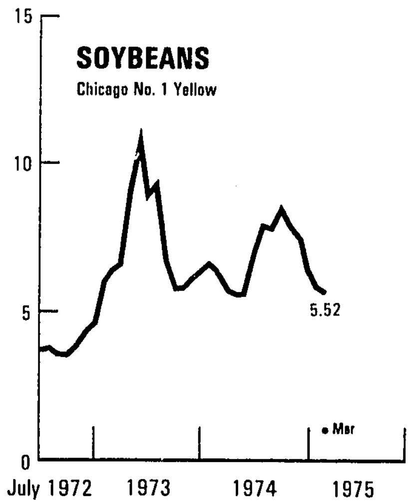
31 Mar	3.90
24 Mar	3.72
Feb 75	3.95
Mar 74	5.25



$ Per Bushel

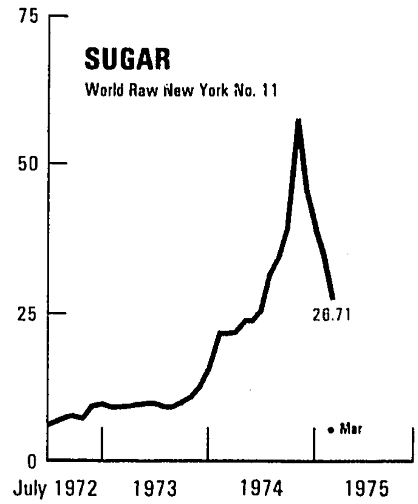
31 Mar	3.07
24 Mar	2.99
Feb 75	2.97
Mar 74	2.99





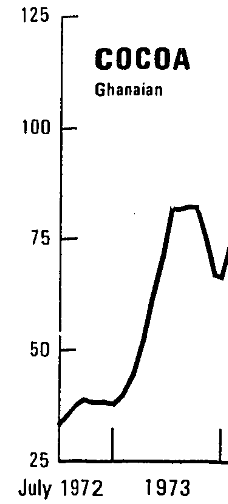
$ Per Bushel

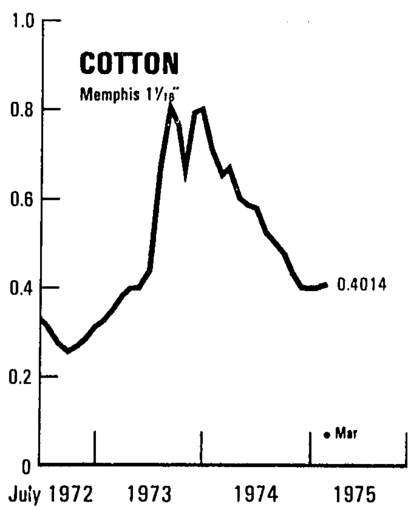
31 Mar	6.07
24 Mar	5.84
Feb 75	5.68
Mar 74	6.23



¢ Per Pound

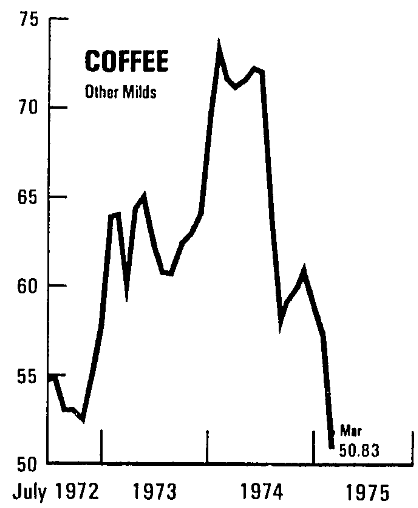
31 Mar	25.50
24 Mar	24.75
Feb 75	33.89
Mar 74	21.30





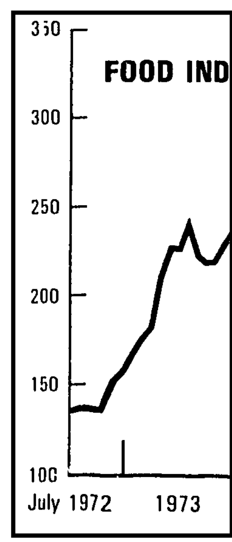
$ Per Pound

31 Mar	0.4160
24 Mar	0.4025
Feb 75	0.3930
Mar 74	0.6410



¢ Per Pound

31 Mar	50.50
24 Mar	50.50
Feb 75	57.05
Mar 74	71.26

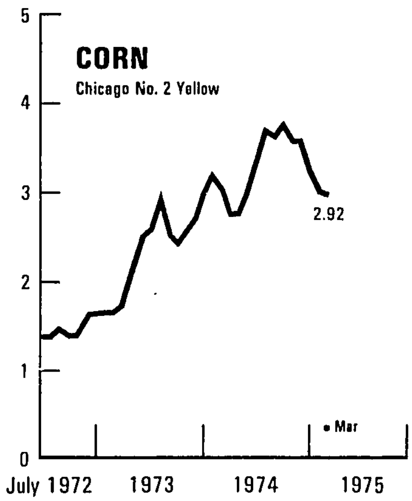


CPYRGHT

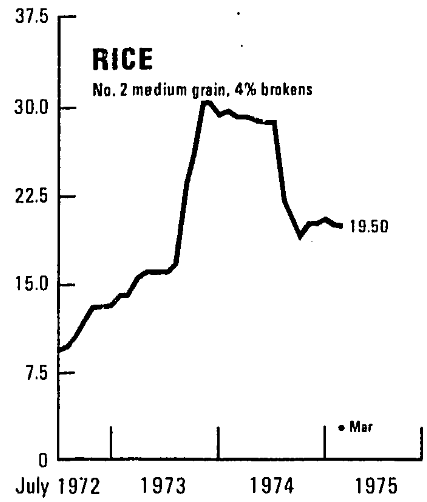
565526 4-75

...thly Average Cash Price

$ Per Bushel	
31 Mar	3.90
24 Mar	3.72
Feb 75	3.95
Mar 74	5.25



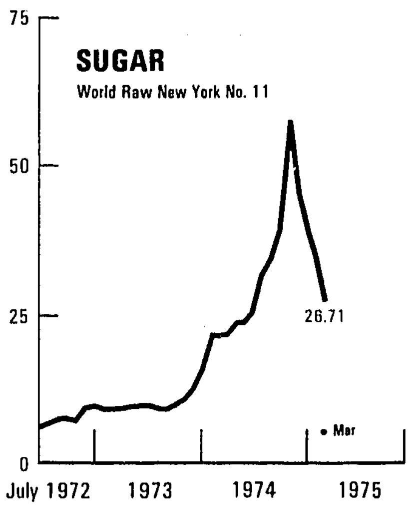
$ Per Bushel	
31 Mar	3.07
24 Mar	2.98
Feb 75	2.97
Mar 74	2.99



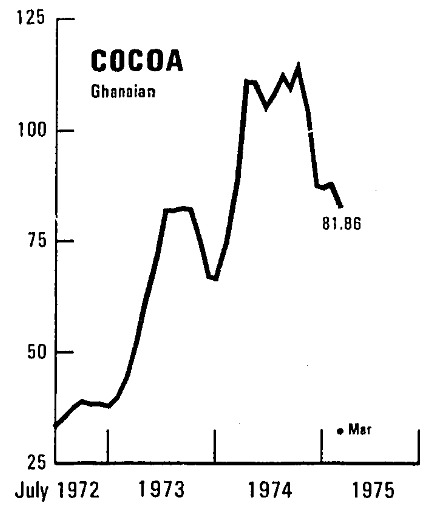
$ Per cwt.
f.o.b. mills, Houston, Tex.

24 Mar	19.50
17 Mar	19.50
Feb 75	19.75
Mar 74	29.00

$ Per Bushel	
31 Mar	6.07
24 Mar	5.84
Feb 75	5.68
Mar 74	6.23



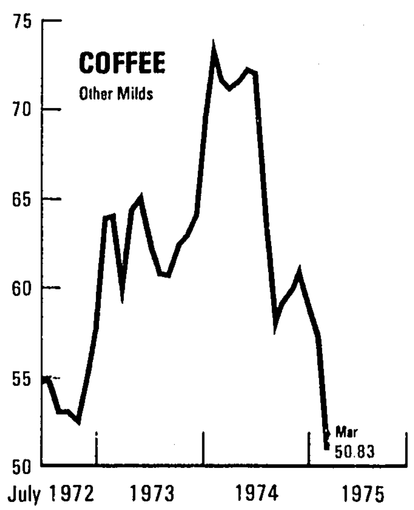
¢ Per Pound	
31 Mar	25.50
24 Mar	24.75
Feb 75	33.89
Mar 74	21.30



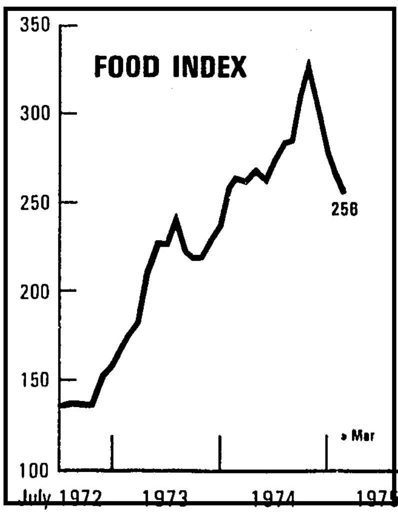
¢ Per Pound
New York price

31 Mar	78.50
24 Mar	81.75
Feb 75	87.24
Mar 74	87.70

$ Per Pound	
31 Mar	0.4160
24 Mar	0.4025
Feb 75	0.3930
Mar 74	0.6410



¢ Per Pound	
31 Mar	50.50
24 Mar	50.50
Feb 75	57.05
Mar 74	71.28



1970=100

This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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